

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Southwest Washington Health District Should Submit Timely And Accurate Financial Reports

The district has not been submitting its annual financial reports to the State Auditor's Office (SAO). In addition, during the course of our current audit, we noted that the financial statements on hand at the district contained numerous errors requiring restatement.

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year . . .

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements . . .

Their substance shall be published in an annual volume of comparative statistics . . . as a public document.

When reports are not filed, it limits the ability of SAO to respond to inquiries for financial information and to provide complete and timely comparative statistics. In addition, auditing inaccurate and incomplete financial information increases audit time and attendant costs.

The district was not aware it was required to annually submit financial reports to SAO. In addition, the errors occurred because it was not fully familiar with governmental financial reporting requirements.

We recommend the district adhere to statutory requirements by accurately preparing and timely filing future annual reports.

We further recommend that staff receive the necessary training to comply with reporting requirements.

2. The Southwest Washington Health District Should Improve Controls Over Cash Receipts And Billings

Our review of the internal controls over the billing and receipting systems identified the following weaknesses:

- Unreceipted Transactions: The district cuts off their receipting process mid-afternoon. Any receipts collected after the cutoff until the end of the day are held until the next morning before being receipted.
- Missing Sequence Numbers: The district sequentially accounts for the physical existence of prenumbered client encounter forms. However, no follow up is performed to ensure that missing encounter forms are receipted or billed. During November and December 1995, the district did not collect revenues totaling \$846 for services for 29 client visits.
- Unauthorized Adjustments And Write-Offs: We reviewed 16 account write-offs and adjustments performed during 1995. None of these contained the proper approval required by the district's accounts receivable write-off and adjustment policy. Explanations for the write-offs and adjustments were not adequate and supervisory approval review of these transactions was not performed.

While management has improved the cash receipting system over the years, it still has not implemented all the controls necessary to adequately control receipts.

These weaknesses put the district at risk for the misuse, abuse, or possible loss of public funds.

In addition, cash receipting weaknesses increase audit time and attendant audit costs.

We recommend the district improve controls by implementing the following procedures:

- Receipt all transactions as they are received by the cashiers.
- Perform supervisory follow up on all missing encounter forms.
- Thoroughly document all adjustments and write-offs and require supervisory approval.

SOUTHWEST WASHINGTON HEALTH DISTRICT
Clark County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. Fixed Asset Control System Should Be Strengthened And The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements

Our audit of the Southwest Washington Health District fixed asset system disclosed the following internal control weaknesses:

- There is no system in place to ensure that all of the capital expenditures are recorded on the fixed asset records and, ultimately, the financial statements. During 1995, \$158,800 in capital expenditures were made, yet only \$26,926 was added to the fixed asset listing.
- Documentation supporting deletions from the fixed asset system was not complete and accurate in all cases.
- Not all assets were tagged identifying them as district property.
- Assets purchased with federal funds were not identified on the fixed asset records. In addition, federally funded assets totaling \$22,395 were not recorded on the fixed asset records.
- Physical inventories were not performed and reconciled to the fixed asset ledgers on a regular basis.

"Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, issued by the Office of Management and Budget, March 1988, Subpart C, Section .32(d), Management Requirements, states in part:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 17:

An adequate fixed asset accounting system will enable your government

to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

The effect of not tagging or logging all assets into a fixed asset system results in a higher probability that errors or theft could occur and not be timely detected. This is especially true for small and attractive items such as computers which have a high potential for misappropriation.

This situation occurred because the district has not implemented proper internal controls and procedures to adequately protect and account for fixed assets.

We recommend the district strengthen internal controls to ensure district property is properly recorded and adequately safeguarded.

We further recommend the district develop a fixed asset accounting system capable of demonstrating compliance with federal grantor requirements.

2. The Southwest Washington Health District Should Improve Controls Surrounding Hope Fund Disbursements

In December 1994, the district established an imprest checking account for distribution of emergency funds for HIV/AIDS clients. This account, titled the Hope Fund, is funded by local donations and federal grant funds. In the original resolution, the district established annual limits of emergency help given to clients. During review of this account, we found the following weaknesses:

- Inadequate formalized policies and procedures for program operation. We noted the limit per client was informally changed and costs constituting emergency assistance were not defined causing some inconsistent uses of the funds among the case managers.
- Disbursements from the account were not always limited to emergencies. We noted one instance where the account was inappropriately used for a fundraiser.
- Disbursements to clients were not tracked to ensure the limit established by the district was not exceeded. We reviewed 14 client files from 1995 and 1996 and found the limit was exceeded in four instances, totaling \$655. In addition, we noted payments for pharmaceuticals and bus passes were not tracked by client.
- All disbursements were not supported by receipts. Five of the fourteen files reviewed did not contain complete documentation to support payments.

Revised Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, issued by the Office of Management and Budget, May 1995, Attachment A, Section C 1, states in part:

1. Factors Affecting Allowability of Costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- c. Be authorized or not prohibited under State or local laws or regulations.

The internal control weaknesses resulted because management did not establish concise, written guidelines to ensure the proper use of Hope Fund resources.

These weaknesses increase the risk that funds will be misused and, as a result, increase audit costs.

We recommend the district strengthen controls by:

- Adopting a formal policy establishing the specific uses and client limits for Hope Fund resources.
- Using the fund only for emergency benefits.
- Tracking expenses by client to ensure that limits are not exceeded.
- Retaining receipts to support disbursements.